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Casey Overvalued Patents, U.S. Tax Court Judge Rules

By Charles R. Babcock
Washington Post Staff Writer

A U.S. Tax Court judge has ruled that two engine patents that CIA Director William J. Casey valued at \$5 million in 1976 had no commercial value at the time. "The groundless gross overvaluation of the patents is convincing evidence that tax consequences were the paramount concern of all the participants," Judge Lapsley Hamblen added in Monday's ruling.

Hamblen disallowed all \$5.5 million in deductions the Tri-Rotor Motor Co. partners took for depreciation, interest and research and development costs. Casey is not liable for back taxes in the case because he was not a member of the partnership.

Evidence in the case showed that Carl G. Paffendorf, a longtime friend and business associate of Casey, tried to sell partnership interests in the engine deal by promising 2-to-1 and 3-to-1 tax write-offs. The Internal Revenue Service has been aggressively challenging such tax shelters, and recent changes in the tax law have increased penalties for abusive shelters.

Casey paid \$10,400 for a 30 percent interest in the engine patents in 1976, a few months before valuing them at \$5 million for sale to Paffendorf's partnership. Only \$50,000 of the purchase price was paid in cash; the remaining \$4.95 million was in the form of a "non-recourse" note, which the judge ruled was "not genuine indebtedness. The amount of the note far exceeded the value of the patents."

Hamblen noted that "the principals provided confused and equiv-

ocal stories as to how the purchase price of \$5 million was determined." Paffendorf testified that Casey "set the price . . . at \$5 million," the judge said. "According to Casey, he negotiated the sale on behalf of the patent holders and he did not know how they arrived at the \$5 million figure. In 1976, the patents had no commercial value."

Hamblen also said that when Casey was named director of the Central Intelligence Agency in 1981, he did not list on his original financial disclosure form either his 30 percent interest in the engine patent or his \$1.5 million share of the note. "On a subsequent financial

disclosure filing, Casey reported an 'interest in a patent' valued at \$10,400. Casey considered the patent sale to be 'contingent' and the value of the notes 'speculative.'"

Casey is a partner in two other ventures sponsored by Paffendorf that also are being contested in U.S. Tax Court. Records in those cases show that Casey could be liable for more than \$100,000 in back taxes, penalties and interest. In one case, Casey took about \$60,000 in deductions over four years on an investment of \$95.

Jerome Kamerman, attorney for the partners in the Tri-Rotor case, could not be reached for comment yesterday. Casey said: "I am not a party to the case. My role was a simple one, to negotiate for the patent I had an interest in, to get the best commitment from the licensee that I thought we could get."

Rain Dam Columbia Hits

United Press International

CAPE CANAVERAL, Fla.—More than 1,000 fra-
shield tiles on the flagsh-
Columbia were damaged
storm during a ferry fl-
California to the Kenne-
Center, NASA said today.

The National Aeronautics
Space Administration said
damage was "considerable
between 200 and 300 of
probably will have to be
Engineers did not know
pairs would delay Colum-
flight, scheduled for Dec.
Columbia, the original

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